

## Cashless- A New Era of Indian Economy: An Analytical Study

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**Abstract:** Cash, a most common name for money remained the main legal tender for centuries; later on the concept of bank came into the picture. Banking is an industry that handles cash, credit and other financial transactions. Banks provide a safe place to store extra cash and credit. They offer savings accounts, certificates of deposit and checking accounts. Banks use these deposit to make loans.

**Keywords:** Cash, Banking, Finance, Credit, Accounts, Economy.

**Introduction:** In the recent trends, bank are providing us various types of mode of payment to run the economy in a more better and convenient way. Nowadays people don't require to keep cash in their pocket to buy goods from the market, these transactions could be possible with the help of other alternatives like E-wallet, Debit Cards etc. these new mechanisms provide cheaper safe alternative of cash. Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world. According to a 2014 study by

Tufts University, The Cost Of Cash In India, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs 21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evaders to hide their income, a substantial benefit in a country that is fiscally constrained.

**LITERATURE REVIEW:** Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media. "A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal." A Cashless Society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties.

**Process of Cashless Transaction-:** Recent trends show that digital money kept in mobile wallets will soon replace physical

cash and even credit cards. Cashless transactions are not limited to one mode of payment rather a variety of modes of payment options are available for this and out of which these five could be said Best cashless payment options in India.

1) E Wallets – **E Wallets** have become very famous nowadays. After demonetisation, use of e wallets has been implemented at a very large-scale. These E wallets allow users to make payments using your mobile number or by scanning a QR code which takes place in a jiffy. All you need to do is simply download a wallet like paytm.

2) UPI –**UPI** also known as Unified Payments Interface is another great way to go cashless. Unified payments interface also called UPI in system of payments. Using unified payments interface, people can transact using their smart phones. To pay using this system called unified payments interface, you need 2 important things: Smartphone and a Bank Account.

3) Plastic Money – **Plastic Money means debit cards and credit cards** that are used at ATM" s for cash withdrawal and POS machines while shopping. Having a debit or credit cards make you burden free from carrying cash.

4) Net Banking – **Net Banking** is another handy way to get cashless transactions done. All you need is a bank account with e banking facility enabled on it. You can transfer funds to others account from the comfort of your home. There is no need of going to your bank to get transfers done. You can make all payments and transfers yourself. This is a very convenient way to go cashless in India as well.

5) Aadhaar Card – **Aadhaar Card enabled payment system** allows a person to pay using his aadhaar card if it is linked to his bank account. Once you link your aadhaar card to your bank, you can make payments using your finger prints.

Importance of Cash less economy:-

To understand the effects of these dimensions, it is important to first understand what is it that cash does in the economy? There are broadly four kinds of transactions in the economy: accounted transactions, unaccounted transactions, those that belong to the informal sector and illegal transactions. The first two categories relate to whether transactions and the corresponding incomes are reported for tax purposes or not. The third category would consist largely of agents who earn incomes

below the exemption threshold and therefore do not have any tax liabilities. The uses that cash is put to for these various segments of the economy can be summarised in the form of Table 1. Finally, there would be demand for cash for illegal purposes like bribes in elections, spending over sanctioned limits, dealings in crime and corruption. If one

takes a snapshot of the location of cash at any given point of time, it is difficult to predict what the breakup of the cash according to these categories would be, but it would be safe to say that each of these components would be represented in that snapshot.

**Table 1: Demand for Cash by various agents in the economy**

Description of the activity	Unaccounted transactions (legitimate Transactions but not tax paid)	Illegal transactions (corruption, crime, etc)	Informal sector transactions	Accounted transactions
Medium of Exchange	Incomes are earned through exchanges in cash, payments are made in cash	Payments for crime	Incomes are earned in cash and spent in Cash	Transaction demand for money
Store of value	Balances held in the interim until alternative investment options become available (there exist a number of	Balances held in the interim until alternative investment options become available (there exist a number of	Savings as well as precautionary purposes (as yet unbanked in the psychological sense)	For emergencies (precautionary demand for money)



	instruments which yield better return than cash – real estate, lending in the unaccounted or informal sector, and so on.)	instruments which yield better return than cash – real estate, lending in the unaccounted or informal sector, and so on.)		
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**Importance of Cashless Transaction:-**

**Attack on parallel economy:**

This is one of the most important reasons why a cashless society is must. People who hoard money under their bed (also known as black money), people who launder money bypassing banking channels, terrorist who need money to finance their terror etc will run out of business now. Size of Parallel economy will reduce substantially.

**Financial inclusion:**

Digital economy will help to enhance our current banking system. There will be increased access to credit for people who did not fall in any banking network. Financial inclusion will automatically reduce poverty.

**Taxation:** with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading

taxation and when there are more tax payers it ultimately leads to a lesser rate of taxation for the whole country.

**Transparency and accountability:** it becomes a lot easier to track the flow of money with every transaction being recorded with the buyer, seller as well as regulatory bodies, making the system much more transparent and compliant. In the long term it leads to better business and investment prospects for the economy as a whole.

More currency in bank will mean more circulation of money in the economy, leading to greater liquidity and would eventually mean lesser interest rates (according to the monetary policy of the country).

**Less availability of cash for illegal activities:** when people are encouraged to go cashless, there is lesser cash available with

the people and there won't be a means to invest in other activities to use the idle cash. Channels like hawala (illegal remittance) will ultimately suffer the brunt of a cashless economy.

**Security and convenience:** Last but not the least is security and convenience. You don't have to carry a wallet with money in it. You just use your mobile phone or credit card for transaction. It is very hassle free and already going on in urban areas of the country.

**The exact amount in small denominations can be paid.** Unlike cash transactions, there is no need to pay fringe amount in case the exact amount is not available with either of the parties. An important, though seemingly insignificant issue is that of hygiene of the notes

**Easier accounting** Direct payment to bank account, you don't need to go every day to deposit cash to your current account.

**Cost of printing money:** Printing money is the direct cost that effects the bank( Reserve Bank Of India). In the cash system of economy where maximum people will work on the cash transaction, government has to produce more and more cash notes. Printing notes it is a costly affair, from April 1994 to June 2016, currency has shown a yearly

growth rate of 17%, RBI incurred an annual cost of INR 2800 Crore for printing currency notes.

**Maintenance Cost:** Other than printing cost of the currency notes there are many other expenses that RBI and government has to do. Another important aspect is the maintenance in the form of storage of notes, transportation of the notes to the distant places and the distribution of money through ATM machines at the different locations. It is reported that all this maintenance cost the government about 5% of the GDP of India. In nutshell we can save somewhere around 500 crores by this mean only.

**Installation of formal and pure form of economy:** It has been observed that cashless economy leads to the start of proper formal and functional economy in the country. When all the transactions are made proper, clear, clean and taxed, it may lead to the establishment of formal setup of the total financial system that leads the country towards development.

**Stop Leakages:** Cashless economy is the best and one of the few ways in the system to stop leakages of the money by the officials of the government while distribution money to the beneficiary. The



present policy of the linkage of AADHAAR or UID NO by the government has resolved this issue to the great extent. The direct benefit transfer policy of the government has helped the identification of the beneficiary on the basis of biometric identity and helps the people to get their dues directly in their bank accounts. This is again a digital or cashless system of transaction that helps the individual to save time and money.

In the above paras we have read that what is cashless economy, what is the procedure for cashless economy, what are the benefits of cashless economy, how it is useful in saving money, preventing corruption, eradicating black money, convenient in use etc.

The demonetization policy has increased the use of online banking services, cheque and e-wallets. It has not only reduced the threat of theft and loss of money on the one side but also facilitated the risk free transactions.

It has been noted that with the increase of cashless transactions there is decline in the withdrawal from the automated telling machines. It has not only reduced the burden on banks but also at the same time helped in the reduction of cost of maintenance of such machines. The world payments report tell the figures that are really amazing. It says

that the global non cash transactions have grown to 8.9% and reached 387.3 billion in the global market. The highest growth is recorded in Asian market that registers the growth of 31.5% in the year 2014. It has been found that card payments remained the top priority among the people. It has increased considerably to 11.4% highest among the other ways of non cash transactions. Still India has a part of population that does not have a basic facility of bank account. According to the report presented by the bank of India it is said that 41% of the people in India still do not have bank accounts with them out of these 41% people, 40% of the people are unbanked in urban areas and 60% of them are unbanked in the rural people. It is therefore the prerogative of the banks, particularly government to open bank accounts in the country. With the scheme of Jan Dhan account scheme launched by Modi there is considerable increase in bank accounts with 175 million new bank accounts in India. Still we have to work on people not having bank accounts. In India, not only account penetration is comparatively low, at 53 per cent, but so is the use of accounts for payments — mere 15 per cent of adults reported using an account to make or receive



payments. All this is so not because India is poor country rather it is because of some other reason such as technical issue, lack of infrastructure, unwilling to join a cashless medium, security from cyber attack, lack of education, access to technology, accessibility in language, etc. and some are explain here.

#### CONS OF CASHLESS ECONOMY:

**Security - cyber attack, fraud and power outages:** Cashless economy can be a nightmare when it comes to security. All your transactions will be done digitally. You will be prone to cyber attacks like hacking. Hackers can hack your sensitive information like password, credit card number etc and leave your account with no money. Even your personal computer is compromised. You can save yourself from fraud but it is very difficult to save from a cyber attack. Finally if there is a power outage especially in India which is very regular then entire system will be affected for long time.

**Have to trust government or third party:** As I said earlier there is no money in your hand. All the money is

digital so either they are in control of banks or government or any other third party. You have to trust government or bank blindly because everything is under their possession. This is could be scary because if tomorrow something happens you will be left with no hard cash.

**Reduced liquidity means bad for certain sectors:** There are certain sectors which depend upon high level of transaction. Sectors like Real Estate, jewelry, retail industry, restaurants and eating joints, cement and other SME will be affected badly because of cashless society. It means a lot of people who are employed with these sectors are also going to be affected.

**Lack of infrastructure:** In India there are many areas where bank is still a distant dream. The remote areas are still not having the banks at their door step. People have to travel long distances for their transactions in the banks. There are no ATM facilities in the remote areas. Even the ATMs do not have electricity backup and other IT related facilities. It is the chief concern of the government and the banks to come up with the basic and secure infrastructure for the banking services.



**Lack of education:** People living in the remote villages and areas of the country are still not educated enough and are not able to operate the banking services effectively. Illiterate people with bank accounts in the country are not even good at filling the bank forms to deposit and withdrawal money. They have to take help of the people in the banks to fill in the forms and get their work done. It has become the prime responsibility of the government to start a campaign in the form of mission to enable the people to discharge their duty by themselves. Lack of proper education in the schools is the main reason that they are not able to operate their bank accounts. Furthermore, illiterate and the people with less exposure to such facilities are not able to operate the cards. The people are not aware of the security measures of the PIN number etc. people should be made aware enough so that they can use the basic banking facilities.

**Access of Technology:** Technology is the backbone to this banking revolution. Technology must be available in all the areas of the country; it means all the banks at the branch level even in the remote area should have the access to technology. The technology must have all the aspects that can help the individuals to do the things

better and effectively. The second major aspect of the technology is that it should be easily handled and used by the people. It is one of the major aspects of the banking that the consumer must be aware of the technology and should be able to use it effectively for the purpose.

**Unwillingness to join cashless moment:** Most of the people due to one reason or the other are not willing to join the cashless banking solutions. The major reasons are the sellers are not willing to accept the cards and cheques as the sale through POS terminals and cheque transactions will be accounted for. The other major aspect is that the sellers mostly ask for the transaction fee that makes the things more costly. The only solution to this problem is that if large number of people join the revolution of cash less payments by virtue of using debit or credit card it will be easier for the banks or service provider to lower the transaction fees and adjust to the normal phenomenon.

**Uneven profile of the participants:** the banks who are participating in this mission are having uneven status. The national banks and privatized banks have different priorities and there services are to some extent uneven in this context. As maximum cards are





issued by nationalized banks they have different level of motives. The service mission is missing in private banks and hence it creates the affair costly

**Accessibility in language:** In addition to all of the above, most of the banks and the mobile instruments for transaction are currently adapted to a single to two languages. If the bulk of the population of this country needs to come on board, it might be important to make these facilities available in a myriad of Indian languages to ensure that the user can comprehend the transaction that they are entering into.

**Transition issues for banking sector:** There are multiple issues here.

a. The banks too might have a transition issue to deal with. Banks would have a model of the fraction of deposits that they can safely lend without an excessive risk of withdrawal of the amount. This is important since, while banks can borrow money from the call money market, the costs of such borrowings can be large. These models, however, might need to be altered in the new regime since the character of the new deposits that come into the bank would be different from the pre-existing deposits. In

the latter, while a fraction of the deposits would be for transactional purposes – e.g. salary earners – another fraction would be depositing only savings into the account. By eliminating high value currency notes, these agents who were operating through cash, would now have to move to non-cash instruments and hence, the balances in their accounts would not be savings but transaction values which will be retained in the account for shorter durations of time. The banks therefore would need to re-model their decisions on how much of the deposits can be lent out and for what duration. It is, for instance possible, that a larger proportion of the deposits would be retained for short-term lending and can even be dedicated to the call money market.

b. Second, while  $1/\text{reserve ratio}$  defines the potential maximum amount of credit that can be generated in the economy, the actual credit generation would be defined both by the demand for credit and the extent to which cash intervenes in the functioning of the economy. For instance, if people who receive credit from the bank make payments through cheques alone and they in turn make payments through cheques, then the potential credit creation can be realised.



However, if on receipt of payment, the agent withdraws the money to cash and makes payments, only a fraction of the credit/deposit will return to the banking system. Thus, larger is the extent to which cash is used as a means of transacting, smaller is the total credit that can be generated. With a withdrawal of cash from circulation, the deposits will continue to remain in the bank; it would merely shift from account to account or from bank to bank. Thus, even on the earlier deposits, the amount of credit that can be generated would be larger. This is another reason why the banks would need to remodel their investment decisions corresponding to a given level of deposits.

**CONCLUSION:** However, the benefits of this move have now started trickling in with more and more people switching to digital modes of receiving and making payment. India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernization in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors,

are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before.

By following some of the points it can be said that we can effectively implement the cashless transactions in the country. It will be better to say that India at this point of time has to go for less cash economy rather than cash less economy. The continuous march towards less cash economy will lead to cashless economy in the country.

**Measures for cash less economy:**

1. People should be educated adequately. The use of cards in the ATM should be described to the people so that they can easily use the card.
2. Proper infrastructure should be developed in the remote areas so that this facility should be taken to the rural and remote India.
3. People should be made aware so that they can utilize their money effectively through cashless means. Buyers and sellers both should be made aware about the benefits of the cashless transactions.